



Moody's Investors Service

**New Issue: MOODY'S ASSIGNS MIG 1 RATING TO CITY OF OAKLAND'S TRAN**

Global Credit Research - 24 Jun 2009

**APPROXIMATELY \$180 MILLION IN DEBT AFFECTED**

Municipality  
CA

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
2009-10 Tax and Revenue Anticipation Notes, Series A	MIG 1
<b>Sale Amount</b> \$100,000,000	
<b>Expected Sale Date</b> 07/08/09	
<b>Rating Description</b> Tax and Revenue Anticipation Notes	
2009-10 Tax and Revenue Anticipation Notes, Series B	MIG 1
<b>Sale Amount</b> \$80,000,000	
<b>Expected Sale Date</b> 07/08/09	
<b>Rating Description</b> Tax and Revenue Anticipation Notes	

**Opinion**

NEW YORK, Jun 24, 2009 -- Moody's Investors Service has assigned a MIG 1 rating to the City of Oakland's 2009-10 Tax and Revenue Anticipation Notes (TRAN) Series A and B. The rating action is a result of the city's satisfactory projected ending cash balance that is supplemented by a sound level of alternate liquidity. Our analysis also considers the city's continued efforts to reduce costs and its recent history of outperforming ending cash balance projections. The large size of the borrowing and the city's typically late set-aside for note repayment is also reflected in the rating assignment. The notes are secured by the city's fiscal 2009-10 unrestricted receipts.

**SATISFACTORY ENDING CASH BALANCE BASED ON SIGNIFICANT BUDGET CUTS STILL TO COME**

The city's projected 2010 ending cash balance is a satisfactory 8.3% of total projected receipts. This represents a \$2.5 million decline from fiscal 2009, but is still largely comparable to that year's 8.5% ending cash balance. In order to meet these projections, the city will have to reduce its disbursements by a total of 8.2% from fiscal 2009. The most significant of these reductions is nearly \$47 million in reductions to salaries and benefits. The city's budget calls for significant layoffs in addition to an increase in the retirement rate and a 12-day shut-down of non-essential city services. The city's proposed budget includes the necessary cutbacks in service and staff, but has not yet been adopted by the city council. However, council has given indication that it will adopt a balanced budget, monitor disbursements throughout the year, and make any necessary mid-year reductions as needed. Moody's assignment of the MIG 1 presumes that the city will, in fact, make any necessary adjustments to produce an adequate operating result. The city has demonstrated an ability to make significant mid-year budget adjustments. In fiscal 2009, the city cut disbursements twice in order to reduce the impact of receipts that fell faster than anticipated due mostly to the rapid deterioration of the economy.

The city is prudently projecting nearly all of its receipts to decline to some extent. Precluding the expected borrowing, total receipts are forecast to fall by 3% from fiscal 2009, which was down 2% from fiscal 2008. The most significant of these declines is a 53% drop in miscellaneous receipts. In 2009, the city captured receipts as a result of one-time actions such as the sale of city property. The city does anticipate the availability of such options in 2010. The city also projects the recession to continue to have negative impacts on real estate transfer receipts, sales tax, and property tax, all of which are expected to decline in 2010. Oakland is not unique given the fact that virtually all California cities are experiencing negative impacts from the weak economy resulting in soft revenue streams. However, based on Oakland's ability to make mid-year budget adjustments, its reasonable cash flow projections, and satisfactory anticipated ending cash balance, Moody's expects the city's finances to be sufficient for the rating designation.

**FISCAL 2010 BUDGET NOT YET FINAL; ADDITIONAL CUTS IN DISBURSEMENTS IS POSSIBLE**

From fiscal 2005 to fiscal 2008, the city ended with actual cash balances that were better than the projected level. The city was able to accomplish this by taking a conservative approach to its forecast of receipts and disbursements. This

string was broken in 2009 when receipts fell at a rate faster than anticipated and in a manner that outpaced the city's ability to make reductions. In fiscal 2010, the city could potentially outperform its expected ending cash level due to some cost saving possibilities that are not included in the projections. The first among these possibilities are potential concessions from the city's labor unions that would further drop the cost of salaries and benefits. The city is also pursuing a federal grant for the funding of 140 city police officers who are currently paid for out of the city's general fund. Receipt of the grant could potentially free \$23 million in fiscal 2010 disbursements. Oakland's city council is scheduled to adopt a budget by June 30 and is exploring other options for receipt enhancement or disbursement reduction that could further strengthen the city's projected cash flow.

#### SOUND LEVEL OF ALTERNATE LIQUIDITY

The city's cash flows are supplemented by a sound level of alternate liquidity found across a range of funds. These funds could be used as a source of note repayment and include money that can be utilized by the city without having to be repaid in the same fiscal year in which it was borrowed. If these funds are included, the city's total ending cash balance rises to a healthy 20% of total receipts. The largest source of alternate liquidity is approximately \$40 million in city's pooled cash fund.

#### LARGE BUT MANAGEABLE BORROWING SIZE; TYPICALLY LATE SET ASIDE SCHEDULE

The city's TRAN will be issued in an amount not to exceed \$185 million. This size issue represents 30% of the city's projected fiscal 2010 receipts. This is a very large size borrowing relative to expected receipts. However, the borrowing should be manageable for the city, in part, because Series B will be used to prepay the city's annual CALPERS obligation for fiscal 2010. The city prepays its CALPERS obligation for the benefit of getting a 3% discount on the total amount owed. The city is setting aside 50% of its note repayment funds in March and May to result in a typically late dollar weighted- average set aside of 1.8 months prior to the fiscal year end. Such late set-asides have been a regular practice of the city and are a credit weakness relative to other California cities with set-asides that are generally 1.5 months sooner. As it has in years past, the city will be placing the note repayment funds with a third-party trustee.

#### KEY STATISTICS

City GO Rating: A1/STABLE

Projected amount borrowed as % of receipts, FY 2010: 30.4%

Projected ending cash as % of receipts, FY 2010: 8.3%

Alternate Liquidity, Projected FY 2009: \$69 million

Pledged set-aside timing (months before June): 1.8 months

The last rating action was on June 23, 2008 when a MIG 1 rating was assigned to the City of Oakland's 2008 TRAN.

The principal methodology used in rating this issue was Short-Term Cash Flow Notes which can be found at [www.moody.com](http://www.moody.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Credit Policy & Methodologies directory.

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